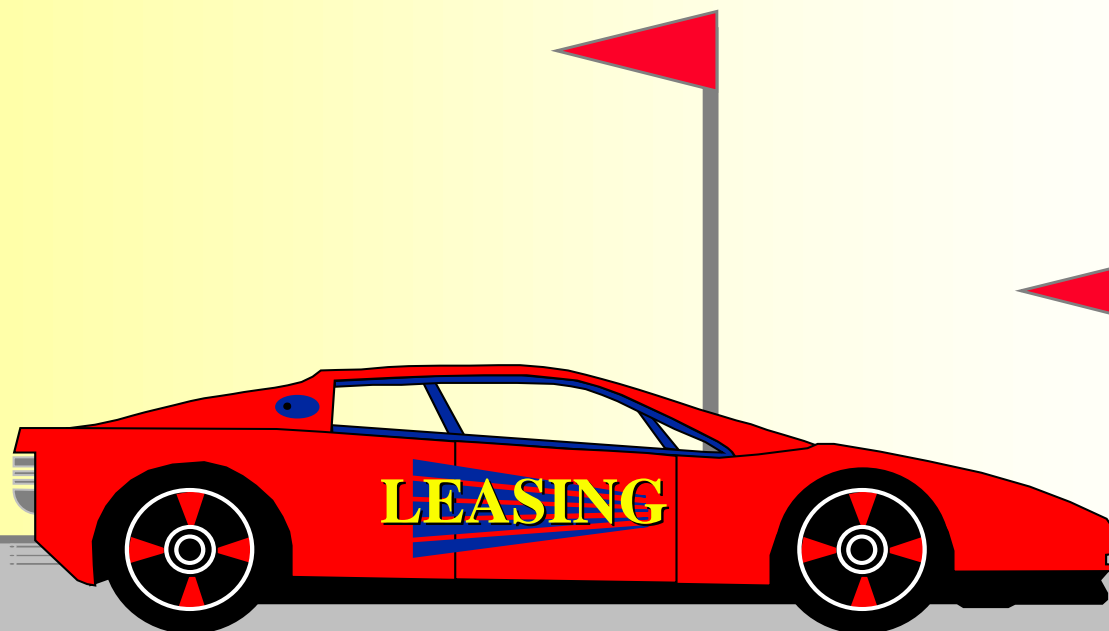


Keys to **Vehicle Leasing**



Consumer Leasing Act

- **Regulation M**
 - consumer leases
 - more than 4 months
 - \$25,000 contract or less



Growth of Leasing

New Cars and Light Trucks

1987	4.4%
1992	13.5
1996	25.2
1998	27.8

Source: CNW Marketing/Research



Who Recommended Leasing to First Timers

	<u>1993</u>	<u>1996</u>
Ads	19%	34%
Co-worker	38	24
Dealer	23	24
Other sources	20	18

Source: CNW Marketing/Research



Most Popular Reasons for Leasing

	<u>1994</u>	<u>1998</u>
Lower monthly payment	61%	42%
No/Low down payment	9	29
Can drive a nicer car	23	16
Better use of money	2	10

Source: CNW Marketing/Research



Down Payments and Trade-ins

- **Down payments**
(capitalized cost reduction)

Make payment **70%**

Average amount **\$1,925**

- **Have a trade-in** **32%**

Source: CNW Marketing/Research



Consumer Education Initiative

- Brochure
- Web site

<http://www.federalreserve.gov/pubs/leasing>



Keys to Vehicle Leasing

- Leasing is different from buying
- Consider beginning, middle, and end-of-lease costs
- You can compare lease offers and negotiate some terms
- Know your rights and responsibilities



Leasing is Different from Buying

- **Ownership**
- **Up-front costs**
- **Monthly payments**
- **Early termination**
- **Vehicle return**
- **Future value**
- **Mileage**
- **Excess wear**
- **End of term**



Lease or Buy Considerations

Ask yourself

- Typically, how often do you get a new vehicle?
- Do you maintain your car in good condition?
- How many miles per year do you drive?



Consider **Beginning**, **Middle**, and **End-of-Lease** Costs

- **Acquisition fee**
- **First monthly payment**
- **Capitalized cost reduction**
- **Refundable security deposit**
- **Title, registration, & license fees**
- **Freight charges**
- **State and local taxes**



Consider Beginning, Middle, and End-of-Lease Costs

- **Monthly payment**
- **Maintenance costs**
- **Insurance premiums**
- **If applicable:**
 - Early termination charges
 - Sales and use tax
 - Inspections
 - Personal property tax
 - Late payment fees



Consider Beginning, Middle, and **End-of-Lease** Costs

Return

- **Disposition fee**
- **Excess wear charges**
- **Excess mileage charges**

Buy

- **Purchase option price**
- **Purchase option fee (if any)**



Compare Offers and Negotiate Terms

- **Monthly lease payments**
- **End-of-lease payments**
- **Purchase option**
- **Whether gap coverage is included**



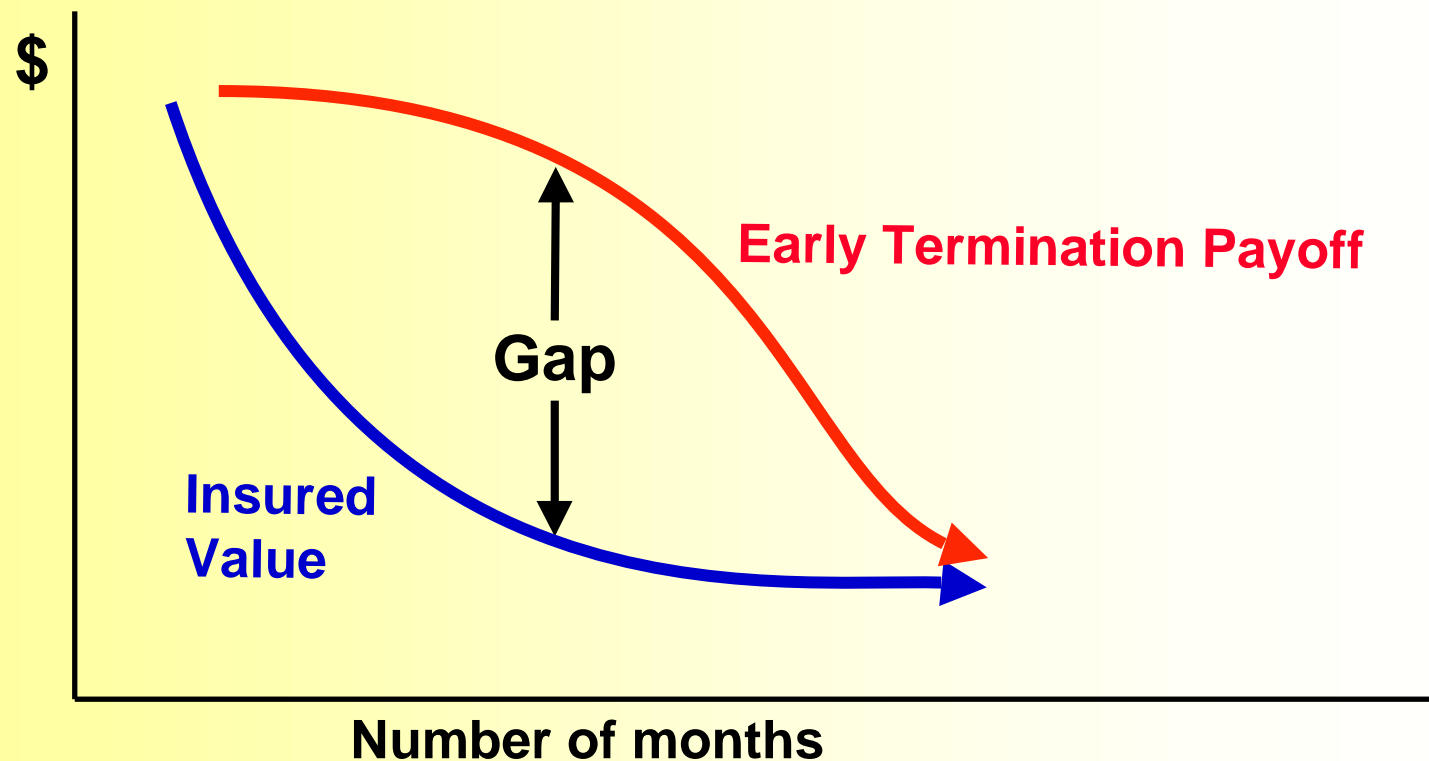
Compare Offers and Negotiate Terms

- Agreed-upon value of vehicle (price)
- Up-front payments, including capitalized cost reduction (down payment)
- Length of lease
- Mileage allowance & per-mile charges



The Gap

The difference between
the insured value of the vehicle
and the amount due for early termination



Know Your Rights and Responsibilities

- Use for agreed-upon number of months and miles
- Service under warranty or recalls
- Turn it in, pay any end-of-lease charges, and “walk away”
- Buy the car if you have a purchase option



Know Your Rights and Responsibilities

Returning the vehicle

- **Early**
 - early termination charges
- **At end of lease**
 - excess mileage charges, if any
 - excess wear charges, if any



A Lease's Monthly Payment

$$\begin{aligned} & \text{Gross cap cost} \\ & - \text{Reductions} \\ \hline & = \text{Adjusted cap cost} \\ & - \text{Residual value} \\ \hline & = \text{Depreciation} \\ & + \text{Rent} \\ \hline & = \text{Total for calculating} \\ & \quad \text{base monthly payments} \\ & \div \text{Lease term in months} \\ \hline & = \text{Base monthly payment} \end{aligned}$$



Gross Capitalized Cost

Agreed-upon value

(Price plus freight and options)

- + Insurance that is capitalized**
- + Prior loan or lease balances**
- + Acquisition or documentation fee**
- + ???**



Capitalized Cost Reduction

Cash

+ Trade-in allowance

+ Rebates/dealer incentives

**Think of capitalized cost reduction
as pre-paid depreciation.**



Residual Value

Assuming Residual Value = Purchase Option Price

Higher Residual

Monthly payment is lower ↓

Purchase option price is higher ↑

Lower Residual

Monthly payment is higher ↑

Purchase option price is lower ↓

Negotiating a higher mileage allowance
will lower residual value.



Depreciation— You Pay For What You Use

Lease

Pay the stated depreciation
during the lease term

$$\begin{array}{r} \$22,300 \text{ gross cap cost} \\ - \quad 12,350 \text{ residual value} \\ \hline = \quad 9,950 \text{ depreciation} \\ \div \quad 48 \text{ months} \\ \hline = \quad \$207 \text{ avg. depreciation} \\ \text{per month} \end{array}$$

Finance

Pay the full cost
during the loan term

$$\begin{array}{r} \$22,300 \text{ cost of vehicle} \\ \div \quad 48 \text{ months} \\ \hline = \quad \$465 \text{ avg. cost} \\ \text{per month} \end{array}$$



Rent Charge

- **Cost of money over time**
(Similar to interest on a loan)
- *Not* an APR



Federal Consumer Leasing Act Disclosures

Date 00/00/00

Lessor(s) Dealer or Leasing Company

Lessee(s) J. Smith

1

Amount Due at Lease Signing or Delivery	Monthly Payments	Other Charges (not part of your monthly payment)	Total of Payments
(Itemized below)* \$ <u>4,241.94</u>	Your first monthly payment of \$ <u>256.94</u> is due on <u>00/00/00</u> , followed by <u>47</u> payments of \$ <u>256.94</u> due on the <u>1st</u> of each month. The total of your monthly payments is \$ <u>12,333.12</u> .	Disposition fee (if you do not purchase the vehicle) \$ <u>400.00</u> Total \$ <u>400.00</u>	(The amount you will have paid by the end of the lease) \$ <u>16,368.12</u>
2	3	4	5

* Itemization of Amount Due at Lease Signing or Delivery

Amount Due at Lease Signing or Delivery:	6	How the Amount Due at Lease Signing or Delivery will be paid:
Capitalized cost reduction \$ <u>3,500.00</u> First monthly payment <u>256.94</u> Refundable security deposit <u>350.00</u> Title fees <u>75.00</u> Registration fees <u>60.00</u> Total \$ <u>4,241.94</u>	6a	Net trade-in allowance \$ <u>2,500.00</u> Rebates and noncash credits <u>-0-</u> Amount to be paid in cash <u>1,741.94</u> Total \$ <u>4,241.94</u>
		6b

7 Your monthly payment is determined as shown below:

8 Gross capitalized cost. The agreed upon value of the vehicle (\$ <u>21,500.00</u>) and any items you pay over the lease term (such as service contracts, insurance, and any outstanding prior credit or lease balance)	\$ <u>22,300.00</u>
If you want an itemization of this amount, please check this box. <input type="checkbox"/>	
9 Capitalized cost reduction. The amount of any net trade-in allowance, rebate, noncash credit, or cash you pay that reduces the gross capitalized cost	- <u>3,500.00</u>
Adjusted capitalized cost. The amount used in calculating your base monthly payment	= <u>18,800.00</u>
Residual value. The value of the vehicle at the end of the lease used in calculating your base monthly payment	- <u>12,350.00</u>
Depreciation and any amortized amounts. The amount charged for the vehicle's decline in value through normal use and for other items paid over the lease term	= <u>6,450.00</u>
10 Rent charge. The amount charged in addition to the depreciation and any amortized amounts	+ <u>5,295.00</u>
Total of base monthly payments. The depreciation and any amortized amounts plus the rent charge	= <u>11,745.00</u>
Lease term. The number of months in your lease	+ <u>48</u>
Base monthly payment	= <u>244.69</u>
11 Monthly sales/use tax	+ <u>12.25</u>
12 Total monthly payment	= \$ <u>256.94</u>

13 Early Termination. You may have to pay a substantial charge if you end this lease early. The charge may be up to several thousand dollars. The actual charge will depend on when the lease is terminated. The earlier you end the lease, the greater this charge is likely to be.

14 Excessive Wear and Use. You may be charged for excessive wear based on our standards for normal use [and for mileage in excess of 15,000 miles per year at the rate of .15 per mile]. 15

16 Purchase Option at End of Lease Term. You have an option to purchase the vehicle at the end of the lease term for \$ 12,350.00 and a purchase option fee of \$ 150.00.

Other Important Terms. See your lease documents for additional information on early termination, purchase options and maintenance responsibilities, warranties, late and default charges, insurance, and any security interest, if applicable.

Top of Lease Form Disclosures

Federal Consumer Leasing Act Disclosures

Date 00/00/00

Lessor(s) Dealer or Leasing Company

Lessee(s) J. Smith **1**

Amount Due at Lease Signing or Delivery	Monthly Payments	Other Charges (not part of your monthly payment)	Total of Payments (The amount you will have paid by the end of the lease)
(Itemized below)* 2 \$ <u>4,241.94</u>	Your first monthly payment of \$ <u>256.94</u> is due on <u>00/00/00</u> , followed by <u>47</u> payments of \$ <u>256.94</u> due on the <u>1st</u> of each month. The total of your monthly payments is \$ <u>12,333.12</u> . 3	4 Disposition fee (if you do not purchase the vehicle) \$ <u>400.00</u> _____ <u>-0-</u> _____ Total \$ <u>400.00</u>	\$ <u>16,368.12</u> 5

Top of Lease Form Disclosures

Federal Consumer Leasing Act Disclosures

Date 00/00/00

Lessor(s) Dealer or Leasing Company

Lessee(s) J. Smith

1

Amount Due at Lease Signing or Delivery	Monthly Payments	Other Charges (not part of your monthly payment)	Total of Payments (The amount you will have paid by the end of the lease)
(Itemized below)*	Your first monthly payment of \$ <u>256.94</u> is due on <u>00/00/00</u> , followed by <u>47</u> payments of \$ <u>256.94</u> due on the <u>1st</u> of each month. The total of your monthly payments is \$ <u>12,333.12</u> .	Disposition fee (if you do not purchase the vehicle) \$ <u>400.00</u>	
\$ <u>4,241.94</u>		<u>-0-</u>	\$ <u>16,368.12</u>
		Total \$ <u>400.00</u>	



Beginning

Top of Lease Form Disclosures

Federal Consumer Leasing Act Disclosures

Date 00/00/00

Lessor(s) Dealer or Leasing Company

Lessee(s) J. Smith

1

Amount Due at Lease Signing or Delivery (Itemized below)* 2 \$ <u>4,241.94</u>	Monthly Payments Your first monthly payment of \$ <u>256.94</u> is due on <u>00/00/00</u> , followed by <u>47</u> payments of \$ <u>256.94</u> due on the <u>1st</u> of each month. The total of your monthly payments is \$ <u>12,333.12</u> . 3	Other Charges (not part of your monthly payment) 4 Disposition fee (if you do not purchase the vehicle) \$ <u>400.00</u> <u>-0-</u> Total \$ <u>400.00</u>	Total of Payments (The amount you will have paid by the end of the lease) \$ <u>16,368.12</u> 5
---	---	--	--

Beginning

Middle

Top of Lease Form Disclosures

Federal Consumer Leasing Act Disclosures

Date 00/00/00

Lessor(s) Dealer or Leasing Company

Lessee(s) J. Smith

1

<p>Amount Due at Lease Signing or Delivery</p> <p>(Itemized below)*</p> <p>\$ <u>4,241.94</u></p> <p>2</p>	<p>Monthly Payments</p> <p>Your first monthly payment of \$ <u>256.94</u> is due on <u>00/00/00</u>, followed by <u>47</u> payments of \$ <u>256.94</u> due on the <u>1st</u> of each month. The total of your monthly payments is \$ <u>12,333.12</u>.</p> <p>3</p>	<p>Other Charges (not part of your monthly payment)</p> <p>Disposition fee (if you do not purchase the vehicle) \$ <u>400.00</u></p> <p><u>-0-</u></p> <p>Total \$ <u>400.00</u></p> <p>4</p>	<p>Total of Payments (The amount you will have paid by the end of the lease)</p> <p>\$ <u>16,368.12</u></p> <p>5</p>
---	---	--	---

Beginning

Middle

End

Top of Lease Form Disclosures

Federal Consumer Leasing Act Disclosures

Date 00/00/00

Lessor(s) Dealer or Leasing Company

Lessee(s) J. Smith **1**

Amount Due at Lease Signing or Delivery (Itemized below)* 2 \$ <u>4,241.94</u>	Monthly Payments Your first monthly payment of \$ <u>256.94</u> is due on <u>00/00/00</u> , followed by <u>47</u> payments of \$ <u>256.94</u> due on the <u>1st</u> of each month. The total of your monthly payments is \$ <u>12,333.12</u> . 3	Other Charges (not part of your monthly payment) Disposition fee (if you do not purchase the vehicle) 4 \$ <u>400.00</u> <u>-0-</u> Total \$ <u>400.00</u>	Total of Payments (The amount you will have paid by the end of the lease) \$ <u>16,368.12</u> 5
---	---	---	--

Beginning

Middle

End

Overall

Amounts Due at Lease Signing Are Itemized

Federal Consumer Leasing Act Disclosures

Date 00/00/00

Lessor(s) Dealer or Leasing Company Lessee(s) J. Smith **1**

Amount Due at Lease Signing or Delivery (Itemized below)* 2 \$ <u>4,241.94</u>	Monthly Payments Your first monthly payment of \$ <u>256.94</u> is due on <u>00/00/00</u> , followed by <u>47</u> payments of \$ <u>256.94</u> due on the <u>1st</u> of each month. The total of your monthly payments is \$ <u>12,333.12</u> . 3	Other Charges (not part of your monthly payment) Disposition fee (if you do not purchase the vehicle) 4 \$ <u>400.00</u> <u>-0-</u> Total \$ <u>400.00</u>	Total of Payments (The amount you will have paid by the end of the lease) \$ <u>16,368.12</u> 5
--	--	---	---

*** Itemization of Amount Due at Lease Signing or Delivery**

Amount Due at Lease Signing or Delivery: 6 Capitalized cost reduction \$ <u>3,500.00</u> First monthly payment <u>256.94</u> Refundable security deposit <u>350.00</u> Title fees <u>75.00</u> Registration fees <u>60.00</u> <u>-0-</u> Total \$ <u>4,241.94</u> 6a	How the Amount Due at Lease Signing or Delivery will be paid: Net trade-in allowance \$ <u>2,500.00</u> Rebates and noncash credits <u>-0-</u> Amount to be paid in cash <u>1,741.94</u> Total \$ <u>4,241.94</u> 6b
---	---

Column totals should be equal

Monthly Payment Calculation

7 Your monthly payment is determined as shown below:

8	Gross capitalized cost. The agreed upon value of the vehicle (\$ <u>21,500.00</u>) and any items you pay over the lease term (such as service contracts, insurance, and any outstanding prior credit or lease balance).....	\$	<u>22,300.00</u>
	If you want an itemization of this amount, please check this box. <input type="checkbox"/>		
9	Capitalized cost reduction. The amount of any net trade-in allowance, rebate, noncash credit, or cash you pay that reduces the gross capitalized cost	-	<u>3,500.00</u>
	Adjusted capitalized cost. The amount used in calculating your base monthly payment	=	<u>18,800.00</u>
	Residual value. The value of the vehicle at the end of the lease used in calculating your base monthly payment	-	<u>12,350.00</u>
	Depreciation and any amortized amounts. The amount charged for the vehicle's decline in value through normal use and for other items paid over the lease term	=	<u>6,450.00</u>
10	Rent charge. The amount charged in addition to the depreciation and any amortized amounts	+	<u>5,295.00</u>
	Total of base monthly payments. The depreciation and any amortized amounts plus the rent charge	=	<u>11,745.00</u>
	Lease term. The number of months in your lease	+	<u>48</u>
	Base monthly payment	=	<u>244.69</u>
11	Monthly sales/use tax	+	<u>12.25</u>
	+	<u>-0-</u>
12	Total monthly payment	= \$	<u>256.94</u>

Additional Disclosures

13 **Early Termination.** You may have to pay a substantial charge if you end this lease early. The charge may be up to several thousand dollars. The actual charge will depend on when the lease is terminated. The earlier you end the lease, the greater this charge is likely to be.

14 **Excessive Wear and Use.** You may be charged for excessive wear based on our standards for normal use (and for mileage in excess of 15,000 miles per year at the rate of .15 per mile). **15**

16 **Purchase Option at End of Lease Term.** You have an option to purchase the vehicle at the end of the lease term for \$ 12,350.00 and a purchase option fee of \$ 150.00.

Other Important Terms. See your lease documents for additional information on early termination, purchase options and maintenance responsibilities, warranties, late and default charges, insurance, and any security interest, if applicable.

- **Early termination**
- **Excess wear and mileage**
- **Purchase option**
- **Other terms in the lease**

Federal Consumer Leasing Act Disclosures

Date 00/00/00

Lessor(s) Dealer or Leasing Company

Lessee(s) J. Smith

1

Amount Due at Lease Signing or Delivery (Itemized below)* \$ <u>4,241.94</u>	Monthly Payments Your first monthly payment of \$ <u>256.94</u> is due on <u>00/00/00</u> , followed by <u>47</u> payments of \$ <u>256.94</u> due on the <u>1st</u> of each month. The total of your monthly payments is \$ <u>12,333.12</u> .	Other Charges (not part of your monthly payment) Disposition fee (if you do not purchase the vehicle) \$ <u>400.00</u> _____ Total \$ <u>400.00</u>	Total of Payments (The amount you will have paid by the end of the lease) \$ <u>16,368.12</u>
---	---	---	--

* Itemization of Amount Due at Lease Signing or Delivery			
Amount Due at Lease Signing or Delivery:		How the Amount Due at Lease Signing or Delivery will be paid:	
Capitalized cost reduction	\$ <u>3,500.00</u>	Net trade-in allowance	\$ <u>2,500.00</u>
First monthly payment	<u>256.94</u>	Rebates and noncash credits	<u>-0-</u>
Refundable security deposit	<u>350.00</u>	Amount to be paid in cash	<u>1,741.94</u>
Title fees	<u>75.00</u>		
Registration fees	<u>60.00</u>		
	<u>-0-</u>		
Total	\$ <u>4,241.94</u>	Total	\$ <u>4,241.94</u>

7 Your monthly payment is determined as shown below:	
8 Gross capitalized cost. The agreed upon value of the vehicle (\$ <u>21,500.00</u>) and any items you pay over the lease term (such as service contracts, insurance, and any outstanding prior credit or lease balance)	\$ <u>22,300.00</u>
If you want an itemization of this amount, please check this box. <input type="checkbox"/>	
9 Capitalized cost reduction. The amount of any net trade-in allowance, rebate, noncash credit, or cash you pay that reduces the gross capitalized cost	<u>3,500.00</u>
Adjusted capitalized cost. The amount used in calculating your base monthly payment	<u>18,800.00</u>
Residual value. The value of the vehicle at the end of the lease used in calculating your base monthly payment	<u>12,350.00</u>
Depreciation and any amortized amounts. The amount charged for the vehicle's decline in value through normal use and for other items paid over the lease term	<u>6,450.00</u>
10 Rent charge. The amount charged in addition to the depreciation and any amortized amounts	<u>5,295.00</u>
Total of base monthly payments. The depreciation and any amortized amounts plus the rent charge	<u>11,745.00</u>
Lease term. The number of months in your lease	<u>48</u>
Base monthly payment	<u>244.69</u>
11 Monthly sales/use tax	<u>12.25</u>
	<u>-0-</u>
12 Total monthly payment	\$ <u>256.94</u>

13 **Early Termination.** You may have to pay a substantial charge if you end this lease early. The charge may be up to several thousand dollars. The actual charge will depend on when the lease is terminated. The earlier you end the lease, the greater this charge is likely to be.

14 **Excessive Wear and Use.** You may be charged for excessive wear based on our standards for normal use [and for mileage in excess of 15,000 miles per year at the rate of .15 per mile].

16 **Purchase Option at End of Lease Term.** You have an option to purchase the vehicle at the end of the lease term for \$ 12,350.00 and a purchase option fee of \$ 150.00.

Other Important Terms. See your lease documents for additional information on early termination, purchase options and maintenance responsibilities, warranties, late and default charges, insurance, and any security interest, if applicable.

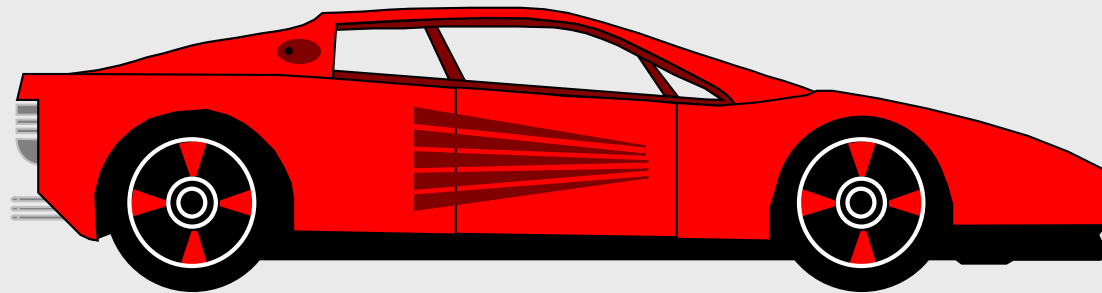
Early Termination Notice

You may have to pay a substantial charge if you end this lease early. The charge may be up to several thousand dollars.

The actual charge will depend on when the lease is terminated. The earlier you end the lease, the greater this charge is likely to be.



Advertising



SPARK EX

Lease for \$245/month for 48 mo.

**\$4,095 due at lease signing, includes security deposit
excludes taxes, title, and registration fees**

**15,000 miles per year.
Subject to credit approval**



Beyond the Ad

- You're responsible for ongoing license plate, inspection, and emission test fees
- Required insurance coverage may be at higher limits than you now carry
- You must follow the maintenance schedule
- You're responsible for “excess wear”



Lease Rate — Advertising

May not be

- advertised as an “annual percentage rate” or “annual lease rate” or any equivalent term.
- more prominent than required written disclosures

Must state

“This percentage rate may not measure the overall cost of financing this lease”

Don't use the Lease Rate as you would use an APR to shop for the best rate on a loan.



Special Issues

- **Personal property taxes**
- **Relocation/Transfers**
 - Within U.S.
 - Outside U.S.
- **Flexibility in payments**



If You Have a Problem, Talk to . . .

1. The dealer, manufacturer, or lessor
2. Local consumer protection office
or State Attorney General's office
3. Federal Trade Commission or Federal regulators
(if the lessor is a bank)
 - Federal Reserve Board
 - Federal Deposit Insurance Corporation
 - Office of the Comptroller of the Currency
 - Office of Thrift Supervision



Questions?

